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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
POLICY SUBCOMMITTEE  
OF THE  
INVESTMENT COMMITTEE**

**MINUTES OF MEETING**

**December 15, 2008**

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A meeting of the Policy Subcommittee was held on Monday, December 15, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 5:30 p.m. and the following members were present:

Henry Jones, Chair  
George Diehr, Vice Chair  
Louis F. Moret  
Anne Sheehan

Policy Subcommittee members excused:  
Charles Valdes

Other Board members present:  
Bill Lockyer, represented by Rosalind Brewer  
Priya Mathur

Some items were taken out of order.

**AGENDA ITEM 2 – APPROVAL OF THE OCTOBER 2008 MEETING MINUTES**

On **MOTION** by Mr. Diehr, **SECONDED**, and **CARRIED** to approve the October 20, 2008 meeting minutes as presented.

**AGENDA ITEM 7 – POLICY REVIEW AND CONSOLIDATION PROGRAM – REAL ESTATE, Revision to Real Estate Policies (Second Reading)**

Ted Eliopoulos, Senior Investment Officer; Jim Hurley, Portfolio Manager; and Laurie Weir, Portfolio Manager, presented the item. Peter Mixon, General Counsel, and Allan Emkin, Pension Consulting Alliance, were available to respond to questions from the Subcommittee.

Review of the Real Estate policies was a joint effort and included input from the Wilshire Associates, PCA – Real Estate Advisors, the CalPERS Legal Office, and the Enterprise Office of Compliance.

During late 2007 and early 2008 staff completed a review of existing policies per the parameters of the Real Estate Strategic Plan and the Policy Review and Consolidation Project. At the June 2008 Policy Subcommittee meeting, staff recommended development of a single overarching real estate policy as the approach will provide more effective policy directives and controls on investment activities. At the October 2008 Subcommittee meeting, staff highlighted the proposed key changes and presented a transition plan and timelines. There was an in-depth discussion and the Subcommittee provided input on a broad range of issues.

Staff provided a detailed review of the proposed revised policy, including incorporation of changes based on previous Subcommittee comments. The Subcommittee provided additional input and language will be added to clarify the board consultant roles and add “debt service coverage ratio” to the glossary.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Real Estate, as revised.

### **AGENDA ITEM 3a – TOTAL FUND, Adoption of Policy on Divestment**

Anne Stausboll, Interim Chief Investment Officer, and Peter Mixon, General Counsel, presented the item. Michael Schlachter, Wilshire Associates, and Allan Emkin, Pension Consulting Alliance were also available to respond to questions from the Subcommittee.

At the October 2008 Policy Subcommittee meeting, staff presented a Pension Consulting Alliance (PCA) memorandum that outlined three options/approaches for a divestment policy. Staff recommended that the Subcommittee adopt a policy that requires CalPERS to divest or underweight an investment to the extent CalPERS concludes that continued ownership of the investment is no longer prudent, or, in the case of a new investment, would be imprudent. Staff also recommended including a statement that CalPERS generally favors an approach of constructive engagement rather than divestment.

Based on direction from the Subcommittee, the CalPERS Legal Office and fiduciary counsel prepared proposed policy language.

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy Regarding Divestment.

### **AGENDA ITEM 3b – TOTAL FUND, Technical Revision of Policies to Reflect Benchmark Name Change**

Anne Stausboll, Interim Chief Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Subcommittee.

Staff reported that on September 20, 2008, Barclays Capital Inc. acquired Lehman Brothers' North American investment banking, capital markets, and private investment management businesses. As part of the transaction, Barclays Capital has changed the name of the Lehman Brothers' indices. Staff provided a list of the policies affected by the indices name change and noted the following additional changes:

- Lehman Brothers, Inc., will be deleted from the eligible counterparties list for the Low Duration Fixed Income Program Investment Policy.
- Lehman Brothers, Inc., will be deleted from the Approved Borrowers List for the Securities Lending Program Investment Policy.

The Subcommittee accepted the report. This information will be included in the next Subcommittee report to the Investment Committee.

### **AGENDA ITEM 4 – GLOBAL FIXED INCOME, Revision of Policy on Global Fixed Income Program**

Curtis Ishii, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

At the October 2008 Investment Committee meeting, staff reported the use of Credit Linked Note (CLN) securities within the domestic fixed income portfolio. A CLN is an investment structure that issues securities which are purchased by investors. Staff and Wilshire recommend that the Global Fixed Income Program policy be updated to include CLN's as specifically permitted, and presented the revised policy.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Global Fixed Income Program.

### **AGENDA ITEM 5a – GLOBAL EQUITY, Revision of Policy on Internally Managed Global Equity Index Funds**

Eric Baggesen, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Staff recommended revision of the Internally Managed Global Equity Index Funds policy to remove Argentina from the emerging markets benchmark and to expand the application and improve the efficacy of the Dynamic Completion Fund (DCF) program.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Internally Managed Global Equity Index Funds.

#### **AGENDA ITEM 5b – GLOBAL EQUITY, Revision of Global Principles of Accountable Corporate Governance**

Eric Baggesen, Senior Investment Officer; Bill McGrew, Portfolio Manager; and Aeisha Mastagni, Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Staff recommended the following changes to the Global Principles of Accountable Corporate Governance:

- Five amendments to existing principles that address executive compensation disclosure, executive compensation vesting methodologies, voting rights tied to unvested equity, and changing the name of the Audit Integrity section.
- The inclusion of United Nations Global Compact as an appendix.
- The addition of a new section dedicated to the governance of joint ventures and the inclusion of Joint Venture Governance Guidelines as an appendix.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Global Principles of Accountable Corporate Governance.

#### **AGENDA ITEM 6 – SUPPLEMENTAL INCOME PLANS, Revision of Policy on Supplemental Income Plans**

Geraldine Jimenez, Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

In November 2008, the CalPERS Supplemental Income Plans (SIP) completed a phased three-year process to convert its investment offerings to CalPERS funds managed by internal investment staff and separate accounts managed for CalPERS by select external managers. Because the externally managed commingled funds have been replaced by CalPERS internally managed funds and externally managed separate accounts, neither are subject to the commingled fund trading restrictions. Staff recommended establishing its own policy regarding frequent trading for both internally and externally managed funds in the SIP fund line-up and presented the proposed revised policy.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy on Supplemental Income Plans.

## **POLICY REVIEW AND CONSOLIDATION PROJECT**

Anne Stausboll, Interim Chief Investment Officer, reviewed the history of the Policy Review and Consolidation Project and outlined the project objectives to:

- Organize and streamline Investment Policy to improve access, clarity and transparency.
- Provide a consistent Investment Policy framework.
- Ensure that the policies facilitate the ongoing CalPERS compliance program.

Agenda Items 7, 8 and 9 reflect the results of the review of policies within the Real Estate Program, Ethics Policies, and Shareowner Activities Policies categories of the Policy Manual. A Phased review of all policies is ongoing and will be completed in 2009.

### **AGENDA ITEM 8 – Revision of Ethics Policies**

Gina Ratto, Deputy General Counsel, and Pat Pechtel, Assistant Chief Counsel, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Review of the Ethics policies was lead by the CalPERS Legal Office and included input from Wilshire Associates, the Investment Office, and the Enterprise Office of Compliance.

Staff presented the following revised policies:

- Insider Trading Policy was substantively changed and staff highlighted the proposed changes.
- Consultant Conflict of Interest Policy was edited for clarity and to conform to the policy template.

The Healthcare Investment Initiative Inter-Program Conflict of Interest Protocol was not presented for action. The protocol is relatively new and the policy has not been tested long enough to asses whether its content should be revised.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee to approve:

- a. The revised Statement of Investment Policy on Insider Training
- b. The revised Statement of Investment Policy on the Consultant Conflict of Interest Protocol

### **AGENDA ITEM 9 – TOTAL FUND, Policy Review and Consolidation Project-Revision of Shareowner Activities Policies**

Matthew Flynn, Division Chief-Operations, Performance and Technology, and Bill McGrew, Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Review of the Shareowner Activities Policies was a joint effort and included input from Wilshire Associates, the CalPERS Legal Office, and the Enterprise Office of Compliance.

Staff presented the following policies:

- Corporate Governance Director Nominations was edited for clarity and to conform to the new template. Specifically, staff revised the definition for director nominations to explain that CalPERS nominates directors to Boards of publicly traded corporations.
- Representation on Corporate Board of Directors was edited for clarity and to conform to the new template.
- Economically Targeted Investment (ETI) Program was edited to remove duplicative language and streamlined the policy to more effectively define ETI and California Emerging Markets. The policy was also edited for clarity and to conform to the new template.

The Global Proxy Voting Policy and the Global Principles of Accountable Governance were recently approved by the Policy Subcommittee and were not presented for action.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee to approve:

- a. The revised Statement of Investment Policy on Corporate Governance Director Nominations
- b. The revised Statement of Investment Policy on the Representation on Corporate Boards of Directors
- c. The revised Statement of Investment Policy on the Economically Targeted Investment (ETI) Program

## **AGENDA ITEM 10 – 2009 ANNUAL AGENDA ITEM CALENDAR**

The Subcommittee accepted the proposed 2009 Annual Agenda Item Calendar as presented.

## **AGENDA ITEM 11 – DRAFT AGENDA FOR FEBRUARY 2009**

The Subcommittee accepted the proposed February 17, 2009 agenda with addition of the Responsible Contractor Program Policy.

## **AGENDA ITEM 12 – PUBLIC COMMENT**

There were no public comments.

The meeting was adjourned at 6:30 p.m.

The next meeting of the Subcommittee is scheduled for February 17, 2009 at a time to be determined in Sacramento, California.